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S LOGISTICS MAGAZINE FEBRUARY 1986

MORE TRUCKING DEREG: ARMAGEDDON FOR SMALL SHIPPERS?

CASEBOOK OF COMPUTER CURES
WHEN TRADE SHOWS GO FOREIGN

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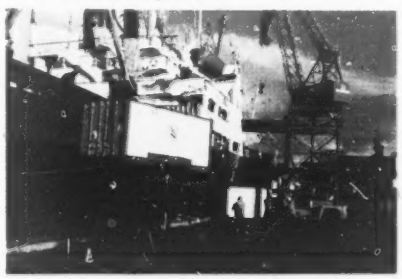

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Our December question asked readers to evaluate industry meetings. *The response indicates that, on the whole, annual gatherings and other industry seminars are valued by most transportation executives. To a lesser but still substantial extent, exhibitions held concurrent to informational sessions are also attractive to trade association members. Seemingly the least worthwhile events, in the eyes of attendees, are the sessions held by local groups, or local chapters of the major industry-wide associations. But the answers we received to our survey also indicated that the same attractions that make a meeting can break it as well. Attendees know what they want, but are quick to point out that it's quality, not quantity, they're looking for. And whether they've come because of the speakers, or seminars, or exhibitions, nothing lets them down faster than being "treated" to one that's badly presented. Here's what some of our readers had to say specifically about their experiences at trade association get-togethers:*

"The NCPDM and TDCC EDI conferences dispensed useful information which will enable us to develop EDI and a bar code system."**—B. L. Kaltenbaugh, traffic manager, Texocom, Atlanta.**

"At a very useful recent meeting, I heard an idea for a distribution advisory council made up of user's department heads."**—Arthur M. Ribe, transportation consultant, Birmingham, Ala.**

"The ideas I picked up at the transportation accounting sessions at the NCPDM conference were immediately implemented in our operation."**—William J. Willis, distribution manager, Long Beach, N.Y.**

"In 1983 I attended the annual meeting of the National Retail Merchants Association Traffic Board. The Apple Computer and Lisa were demonstrated, and I was convinced that the micro-computer was the way to go. At the present time I have two micros in the office. I handle a freight budget of just over $1 million, and since computerization productivity is up 200 percent."**—Glen E. Schneider, traffic manager, Robinson's of Florida, St. Petersburg, Fla.**

"At an industry meeting on importing, I learned that I could truck product from Italy to the Netherlands and then ship from Rotterdam to the U.S., and that it would be quicker and less expensive than to ship from Genoa. The speaker also furnished the names of specific trucklines that I could use to accomplish the movement."**—Henry Karel, director of distribution, Cleo Wrap division of Gibson Greetings, Inc., Memphis, Tenn.**

continued

QUESTION OF THE MONTH

PLANE TICKETS AND OIL CHANGES

Back when traffic and transportation departments had less interaction with other corporate departments, they were often asked to embrace other duties in addition to their primary function of shipping and receiving freight. These "non-freight" duties included such tasks as personnel relocations, employee travel, and auto fleet management. That meant traffic managers had to spend a fair amount of their time tracking down lost sofas, negotiating rental car discounts, or scheduling oil changes for 300 Buicks.

Now that traffic and transportation has grown into distribution and logistics, and your departments are more heavily involved with a much broader range of general corporate functions, do you still have to watch over these "non-freight" tasks, or have they been reassigned to other corporate departments? If they no longer come under your purview, or if they never have, do you think they should? If you still have them as an added responsibility, how do you organize your department to carry out the "non-freight" duties?

Please give us an indication of the extent of your involvement with "non-freight" duties by answering the questions on the card below.

DIALOGUE

February 1986

•Currently, my department has primary responsibility for these "non-freight" corporate duties (check all that apply):
_____household moves for relocated employees;
_____airline and train tickets for employees' business travel;
_____negotiating corporate discounts for employee travel (airlines, rental cars, hotels, etc.);
_____corporate auto fleet management;
_____mailroom management;
_____other (describe: _____)

•Collectively, all of these "non-freight" duties occupy _____percent of my department's time, _____percent of its staff and _____percent of its budget.

•In the past ten years, my department has been asked to assume (_____more/_____less) of the responsibility for these non-freight duties.

•I feel these duties (_____should/_____should not) come under the purview of corporate logistics.

Here's what I think transportation/distribution's proper role in "non-freight" areas such as employee relocations and travel should be:

_____

_____

_____

_____

_____

NAME (print) TITLE

COMPANY PHONE

ADDRESS

CITY STATE ZIP

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that have caught the ears of *DISTRIBUTION* editors:)

"The veto of the textile and apparel quota bill is an important first step in the retail industry's battle to win freer trade—but it is only a first step. American consumers are already paying $8 billion to $12 billion more than they should each year for textile and apparel products as a result of a 30-year system of import quotas sanctioned by an international treaty known as the Multi-Fiber Arrangement (MFA). The MFA is scheduled to expire in July 1986. We are redoubling our efforts to seek the gradual elimination of this protectionist regime."**—James R. Williams, president, NRMA.**

•

"Some might question whether the 'freedom' (granted by the 1984 Shipping Act) has been more beneficial to shippers than to carriers. Exporters today must have a competitive price as well as service quality and the carriers must not only control their own costs, but also provide competitive domestic rates. As for those steamship companies which do not have personnel trained in domestic transport, I suggest they start right now. Total intermodalism is here to stay and there's no turning back."**—Daniel J. Kerrigan, president, ACL-USA.**

"The practical information I've picked up at industry meetings includes: a slide show report by Safeway on slipsheets versus pallets; details of the Textile Bill and the problems of protectionism; and a discussion of the Port of Seattle's new Cargo Express program, which is in direct competition with my employer."**—Susan L. Flood, traffic manager, Port of Tacoma, Tacoma, Wash.**

"I learned about upcoming industry trends at a local meeting of Delta Nu Alpha."**—Tony DiFranco, manager, Kenosha Auto Transport, Hampton, Va.**

"No meeting is a waste of time unless *you* make it that way."**—Lynn Smith, manager, transportation & shipping, NCR-MSD, Mountain View, Calif.**

"I picked up some cost-saving ideas at the NASSTRAC event."**—Mike Crenshaw, distribution analyst, Hilti, Inc., Tulsa, Okla.**

A MEETING OF MINDS

I attended the following meetings:
- Delta Nu Alpha 55%
- various local chapters and traffic clubs 55%
- NCPDM (CLM) 36%
- NITL 27%

The meeting which was of the most practical value to attendees:
- NCPDM 27%

Least practical value:
- Local traffic clubs 18%

Biggest attractions of industry meetings:
- session topics 82%
- speakers 64%
- concurrent expositions 45%
- meeting "themes" 27%

Biggest meeting turn-offs:
- old session topics 45%
- speakers who give commercials 45%
- frequent cocktail parties 36%

My management expects me to justify my attendance at meetings by showing cost savings 18%

Management does not expect justification by showing cost savings 55%

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ECONOMICS

FORECAST

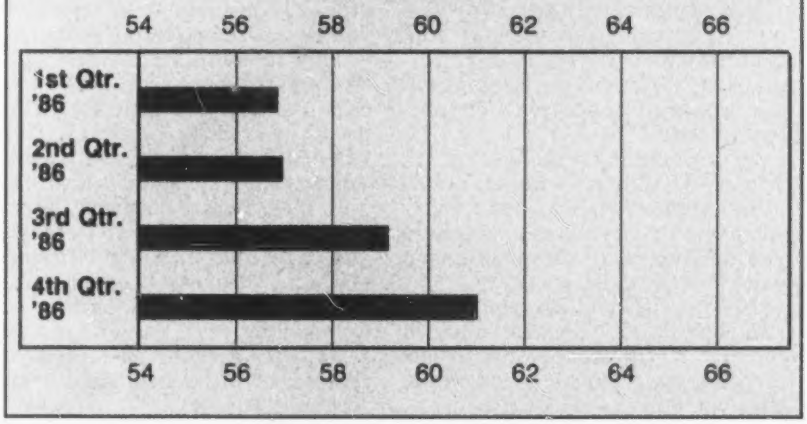
In 1986, the distribution industry will ride the coattails of the overall economy to another good year.

By Richard Lancioni, Ph.D., Contributing Editor

GENERAL ECONOMIC INDICATORS 1986 FORECAST

	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.
Real GNP (billions)	$4,907.7	$4,125.4	$4,225.5	$4,275.3
Retail Car Sales (millions of units, annual rate)	10.5	10.0	10.2	10.3
Housing Starts (1000s of units, annual rate)	1.78	1.74	1.80	1.79
Prime Rate (%)	9.5	9.75	10.0	10.5
Personal Income (billions)	$3,249.8	$3,377.8	$3,425.1	$3,495.2
Inflation Rate (%)	3.7	4.1	4.5	4.8
Unemployment Rate (%)	7.0	6.9	6.9	6.8
Net Exports (billions of $)	80.1	80.0	81.0	81.5
Factory Utilization (%)	80.1	80.0	81.0	81.5

PURCHASING MANAGERS COMPOSITE INDEX 1986 FORECAST



The new year looks like another good one for the U.S. economy. As late as September 1985, many economists were forecasting a slowdown in 1986. But now, most anticipate that real gross national product will grow at an annual rate of more than 3 percent. The outlook has brightened for a variety of reasons, including the passage of the Gramm-Rudman budget-balancing bill, which should make Congressional members more conscious about reducing the federal deficit and moving ahead on tax reform.

Also, consumer confidence remains high, and with retail sales picking up in the fourth quarter of 1985, forecasters expect only a moderate slowdown in the first and second quarters of 1986.

Exports should do well in 1986 as the value of the dollar begins to fall against foreign currencies. This should make U.S. goods more affordable to foreign customers and improve the U.S. balance of trade. New exports should reach $90.2 billion by the third quarter of 1986 and continue to increase in the fourth quarter.

Along with the improvement in exports, U.S. automakers will have a healthy year. While Japanese imports are gaining in overall market share, U.S. companies should have another 10- to 11-million unit year. With profits averaging approximately $2,000 to $3,000 per unit, profits in 1986 should exceed those of 1985.

Inflation will continue at a slow pace in 1986, holding at 3 to 4 percent throughout the year. The rate will tend to increase at the end of the year as imported goods become more expensive with the

continued

decline in the value of the dollar. The prime rate will remain relatively constant throughout the year, starting off at below 10 percent and rising to approximately 10.5 percent by year's end. This is due in part to the higher deficit requirements of the federal government in the fourth quarter of 1986. Although the increase in interest rates should be relatively mild, the interest could be higher if Congress fails to deal with the deficit problem constructively.

Housing starts should remain strong in 1986 and factory utilization should stay at around 80 percent for most of the year. While consumer demand remains strong, capital goods orders are sluggish and firms were reluctant in the latter part of 1985 to invest heavily in new plant and equipment. This should change somewhat in 1986 as old equipment is replaced and modernized. If imports decline in some industries, we may see a sharper increase in new plant investment in 1986.

In the distribution sector, 1986 should prove to be a good year. Truck shipments will increase slowly throughout the year, along with rail, air and water shipments. Warehouse utilization should remain constant, rising by only a moderate amount in the fourth quarter due to the buildup in inventories for the Christmas season. A big factor which will continue to impact on inventory levels is the gradual move toward just-in-time inventory management systems. Distribution managers in 1986 will continue to get pressure from their top managers to keep inventory costs down and improve customer service without increasing inventory levels. Since inventory costs account for as much as 44 percent of a firm's total logistics costs, emphasis on lower inventory levels will be great. Along with this, inventory valuation will continue to remain low, rising to the 134.6 level by the end of the fourth quarter.

Distribution managers will continue to face some interesting challenges in 1986 which will impact on how they manage their operations. These include:

- An increased emphasis on making distribution a profit center and moving away from the traditional cost center approach. This will require that distribution managers develop better accounting systems for their operations so that the true cost of distribution can be calculated and its impact on the firm determined. Historically, companies have not accurately considered the true cost of distribution. Traditionally, they have relied on aggregate measures of distribution cost, considering it to be a transportation cost center or allocating it to production or marketing.
- In 1986, distribution managers will see a greater decentralization of the distribution function and a broadening of its responsibilities to include not only warehousing, inventory, transportation, and order processing, but also transport and purchasing. This trend has been happening slowly over the past 5 years, but will accelerate in 1986. In fact, the trend is toward the development of totally integrated systems.

continued

DISTRIBUTION INDEX—1986 FORECAST

	1st QTR.	2nd QTR.	3rd QTR	4th QTR.
Truck Shipments	146.7	146.9	147.1	147.9
Rail Shipments	127.4	126.9	127.1	127.9
Air Shipments	134.1	135.5	136.7	138.6
Water Shipments	117.1	118.3	119.2	118.7
Warehouse Space Utilization	133.1	132.2	132.5	134.6
Inventory Valuation	112.1	112.4	112.1	112.8

DIESEL FUEL PRICES—1986 FORECAST (cents per gallon)

	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.
Full-Serve	128.2	128.9	129.1	129.5
Self-Serve	116.4	116.9	117.1	117.8

Source: Household Goods Carriers Bureau. Figures are estimates calculated by author.

TRANSPORTATION COST INDEXES (1977 = 100.0)

	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.
Rail	185.0	185.9	186.1	186.8
Truck	175.0	174.8	174.0	174.8
Barge	188.0	188.5	188.6	189.0

Source: Data Resources Inc.

• Distribution managers should face a relatively peaceful year in the labor area, with few if any major disruptions in the transportation sector. In fact, labor costs will rise by only 3 percent in 1986. As one private fleet manager stated, "Labor peace in my organization has meant improved productivity, improved customer service, and a better sense on the part of drivers of pride in their work and in the company. We expect more of the same in 1986."

• Customer service will continue to be stressed in 1986 as the main objective of distribution. This will require that distribution managers attempt to coordinate their efforts more closely with marketing and production, so that, as one distribution manager has said, "few out-of-stock surprises occur."

• The name of the game in 1986 will change from distribution management to logistics management. This was given impetus by the announcement by the NCPDM that the organization's name had been changed to the Council of Logistics Management. What this means for the traditional distribution executive, besides a new title, is increased responsibility, a new respect in the organization, and a move toward total control of the complete product flow in the firm.

Fuel Prices and Transportation Costs

Fuel costs should remain stable during 1986. Full-serve diesel prices will increase by only a penny and a half throughout the year, rising to an estimated $1.29 by year's end. Self-serve prices will rise by about the same amount, reaching $1.17 a gallon in the fourth quarter. While fuel remains an important component in transportation, distribution managers in 1986 can develop plans which reflect no more than a 3 to 5 percent rise for the year. Looking at the cost of moving freight, the same trend can be noticed. The cost of moving freight by rail will rise only moderately from 185.0 in the first quarter to the estimated 186.8 level by the end of the year. Motor truck rates may actually moderate in 1986 with all of the discounting that is taking place in the industry, reaching the 174.8 level by year's end. The same moderation can also be noticed in barge and water transport. In fact, as shown in the Freight Rate Index (below), the overall trend in freight rates over the last six years has been one of only moderate increases from year to year:

1980-81	7.6%
1981-82	1.5%
1982-83	2.2%
1983-84	2.3%
1984-85	3.4%
1985-86 (est.)	5.2%

Purchasing Index

One of the key indicators in the growth of the economy is the rate of expenditures made by firms for capital equipment and supplies. In the last quarter of 1985, orders for machine tools and other capital goods were sluggish and faced continued competition from foreign imports. While this threat will continue in 1986, orders for capital goods should expand as domestic demand increases. The purchasing management index for 1986 (p. 36) is estimated to grow steadily throughout the year and reach the 61.0 level by the end of the fourth quarter.

Summary

By all indications 1986 should be another good recovery year for the economy. Of course, as in all projections, many things have to remain constant, and certain things must happen. For example, the U.S. dollar will have to continue to decline by another 25 percent in 1986 if exports are to grow. In addition, some progress has to be made on balancing the budget and reducing the federal deficit. The U.S. is currently financing its debt with foreign investments, and if these investments are curtailed, interest rates will rise and inflation will increase. It is assumed that few major strikes will occur in 1986 and that fuel prices will remain stable. But an upheaval in the Middle East could change the fuel picture overnight.

One distribution manager noted, "The distribution industry is at the mercy of numerous elements—labor unions, government regulation, foreign competition, and domestic competition—but the greatest threat is ourselves. Industry managers must stop putting out fires and start anticipating change before it occurs. In short, we have to be *proactive* managers if we are to gain the respect of our colleagues in marketing, production, and finance. We should take advantage of the positive economic times to prove ourselves to top management before bad times set in and we become cost burdens which have to be reduced. 1986 is the year to do it, and we should take advantage of the opportunity." ★

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